Scenarios for China's Economic Development

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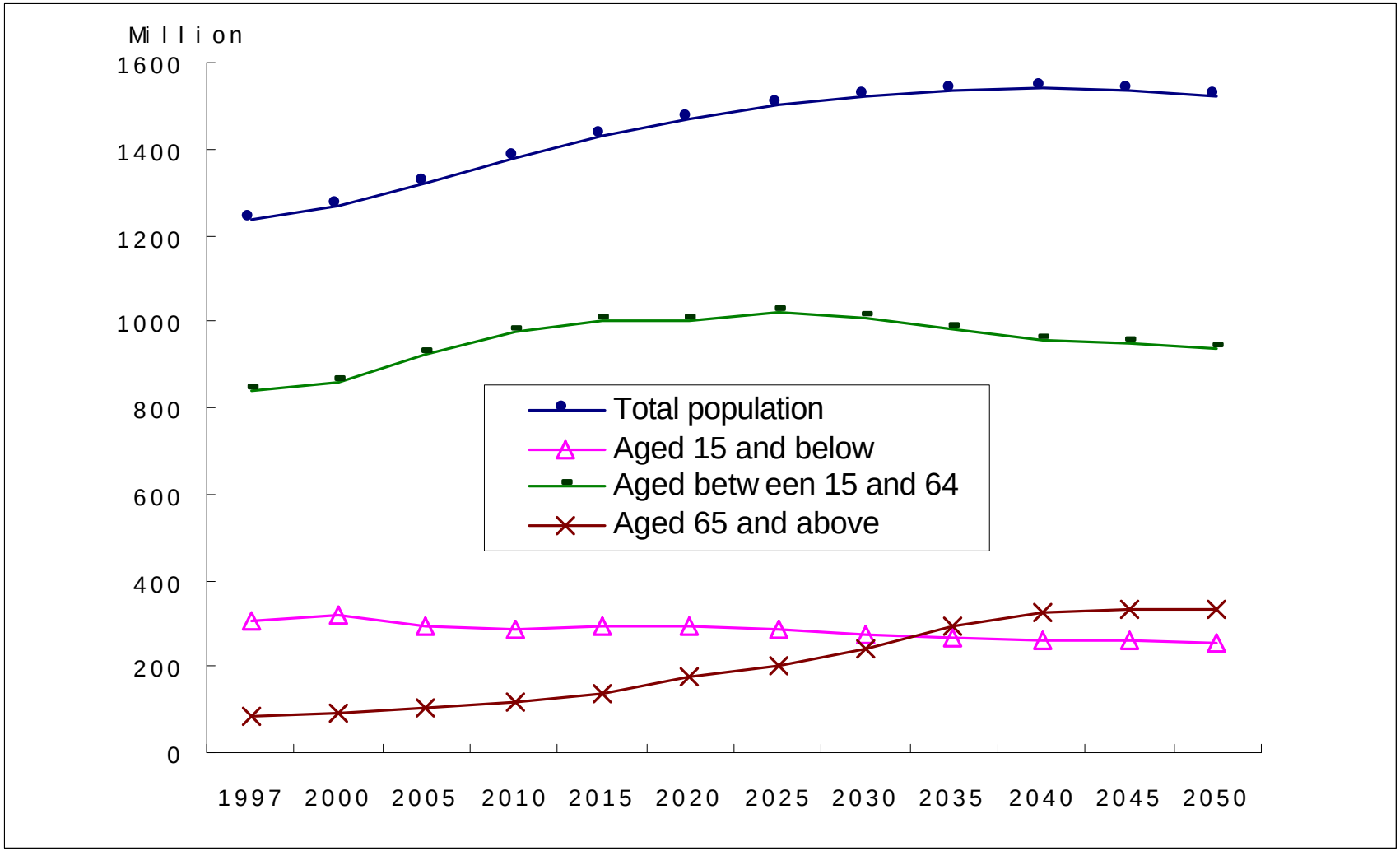
The source of rapid economic growth in China in the last two decades

- The rapid growth in the capital input
  - high investment rate
  - large inflow of foreign capital
- Improvement in the productivity
- The re-allocation of labor among industrial sectors and regions represents a very important source of growth

- Baseline scenario
  - Business-as-Usual(BaU)
    - Chinese economy could maintain the past growth performance
- Two scenarios
- China’s WTO accession case
- Service liberalization case
- Methodology
  - dynamic computable general equilibrium model
- Based on the different assumptions about the key underlying factors

- Reveal and clarify the basic factors which are likely to influence the future economic growth and development
- Facilitate our understanding of risks and uncertainties in our future economic development
- The GDP growth rate and other economic indicators should be regarded neither as a forecast, nor as upper or lower limits of the future economic growth rate.

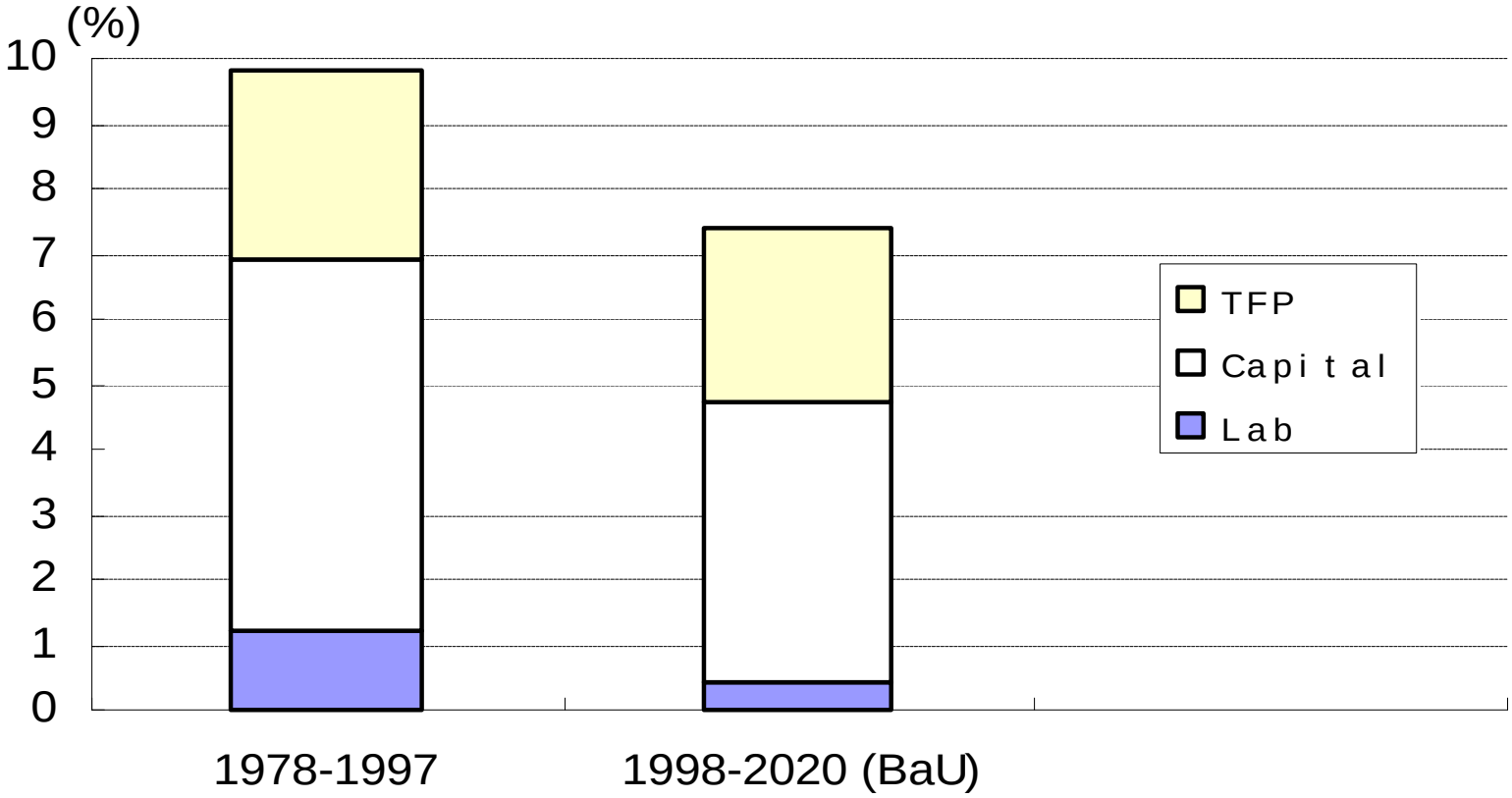
China's Population Growth 1997-2050



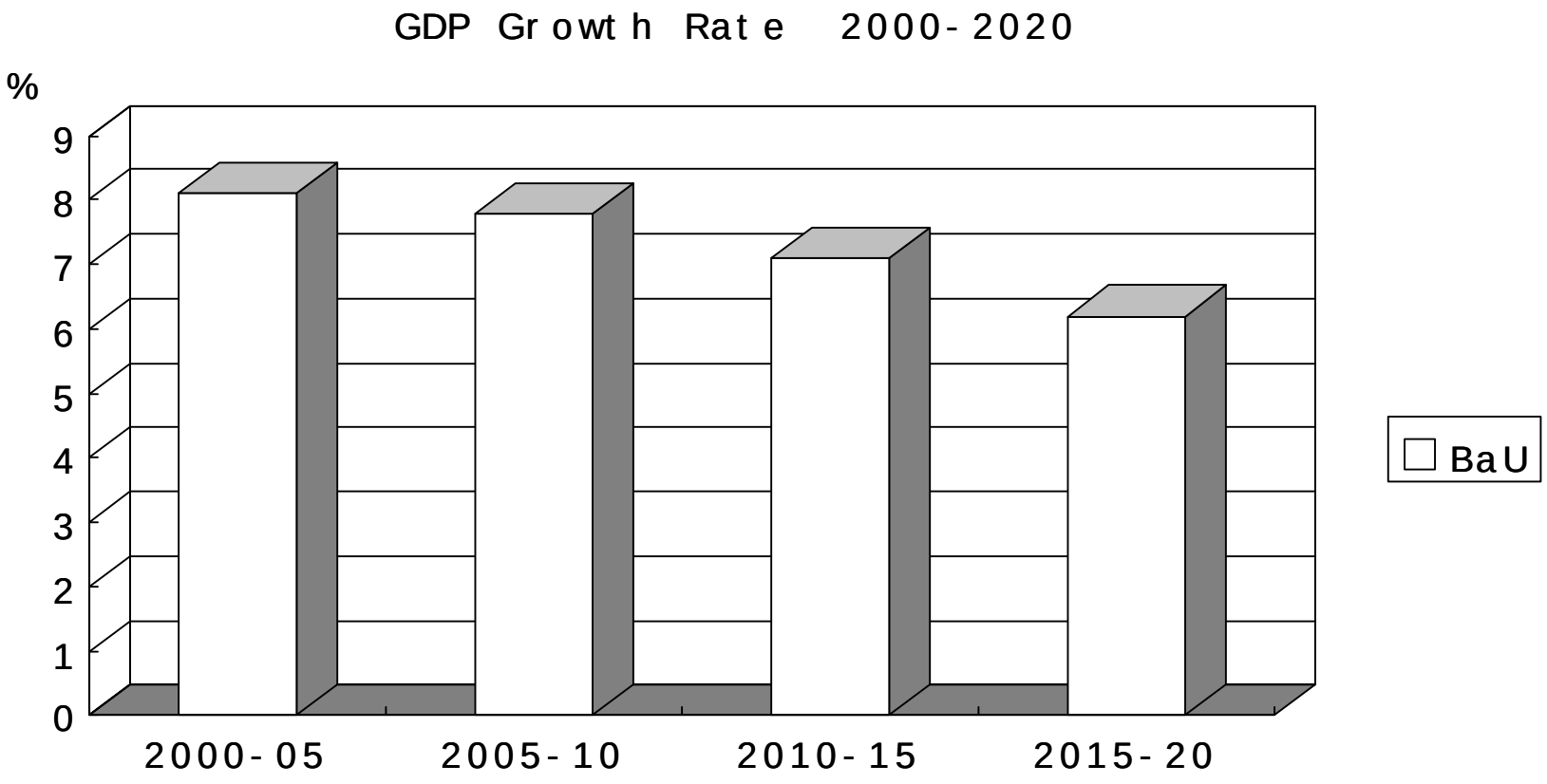
Business-as-Usual

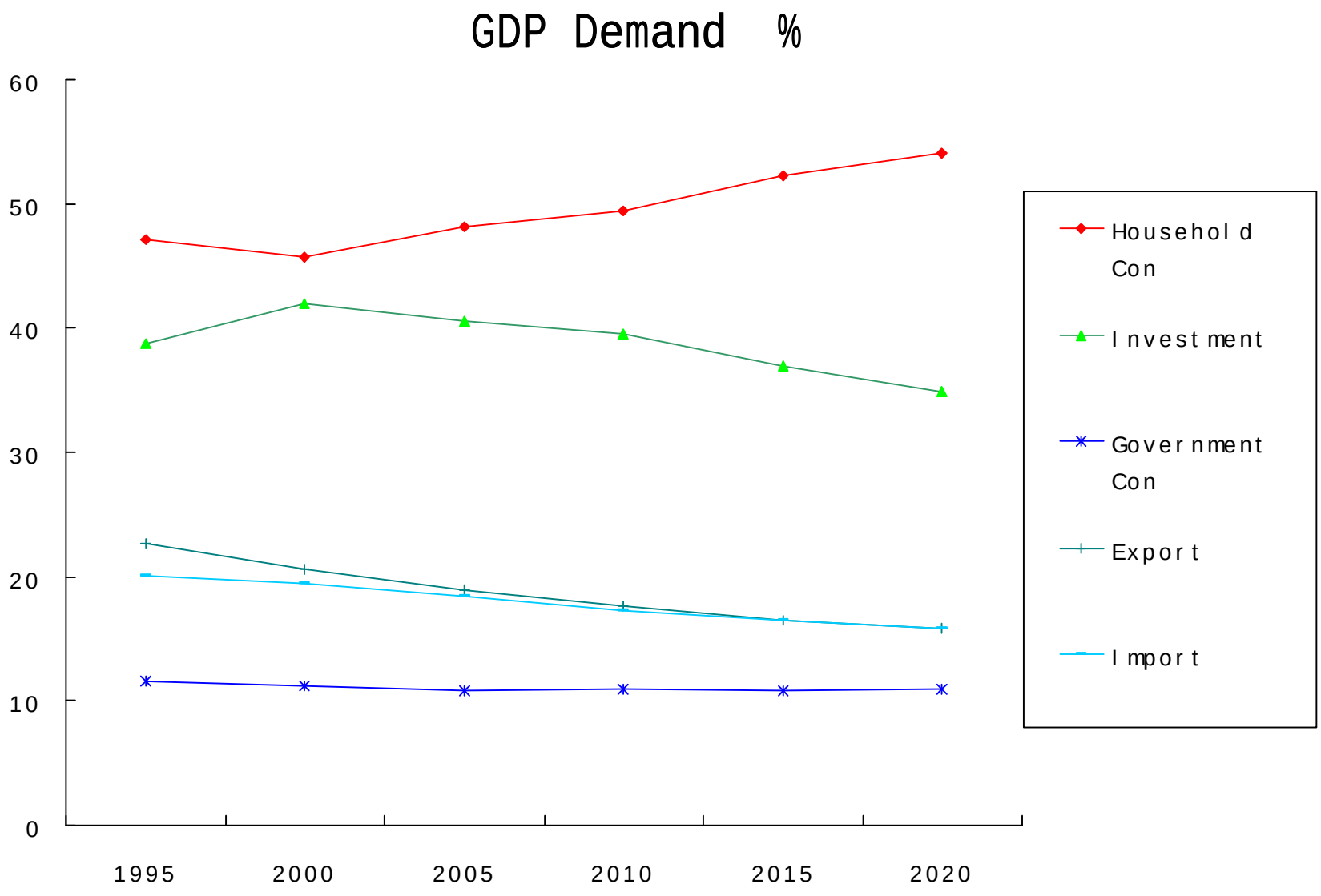
- China will continue to pursue its reform and open-door policies
- Socialist market economy system will be established and perfected step by step
- Agricultural labor force will be constantly transferred to non-agricultural sectors
- The opening to the outside will be expanded and deepened
- The international environment will remain stable
- Total factor productivity (TFP) will keep growing at an annual rate of 2.5 to 3%

GDP Growth and Components 1978-1997 and 1998-2020



2010-2020 Economic Growth Rate is Lower 1.3-1.4 percentage point than 2000-2010



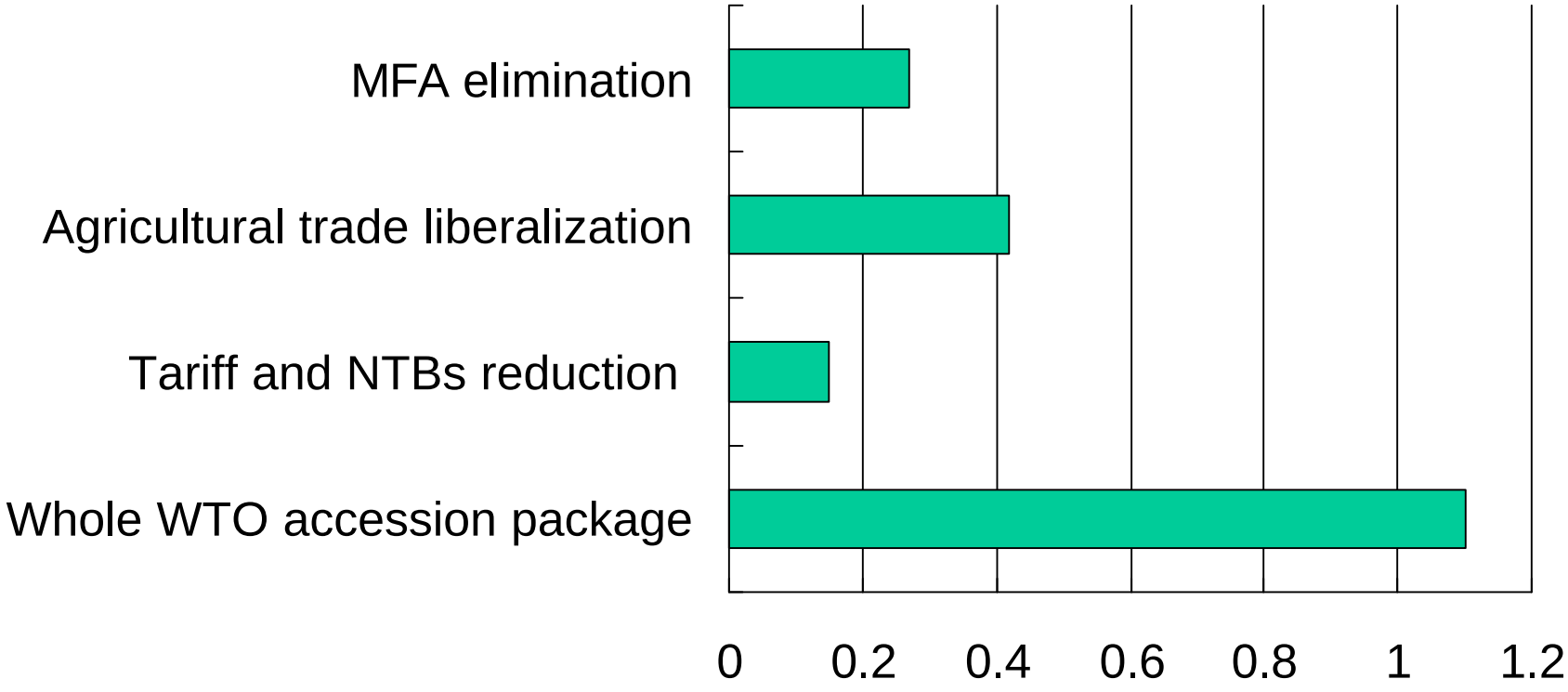

GDP Demand %
60
50
40
30
20
10
0
1995
2000
2005
2010
2015
2020
Household Con
Investment
Government Con
Export
Import

China's WTO Accession Case

- **Incorporated four aspects of policy change.**
  - Tariff reduction for industrial products
  - Quotas elimination on petroleum refining and automobiles
  - Agricultural trade liberalization, i.e. Introduction of TRQ system and tariff cut
  - Phasing out of MFA quota on textile and clothing
- **All policy changes will be phased in over the period from 2001-2008**

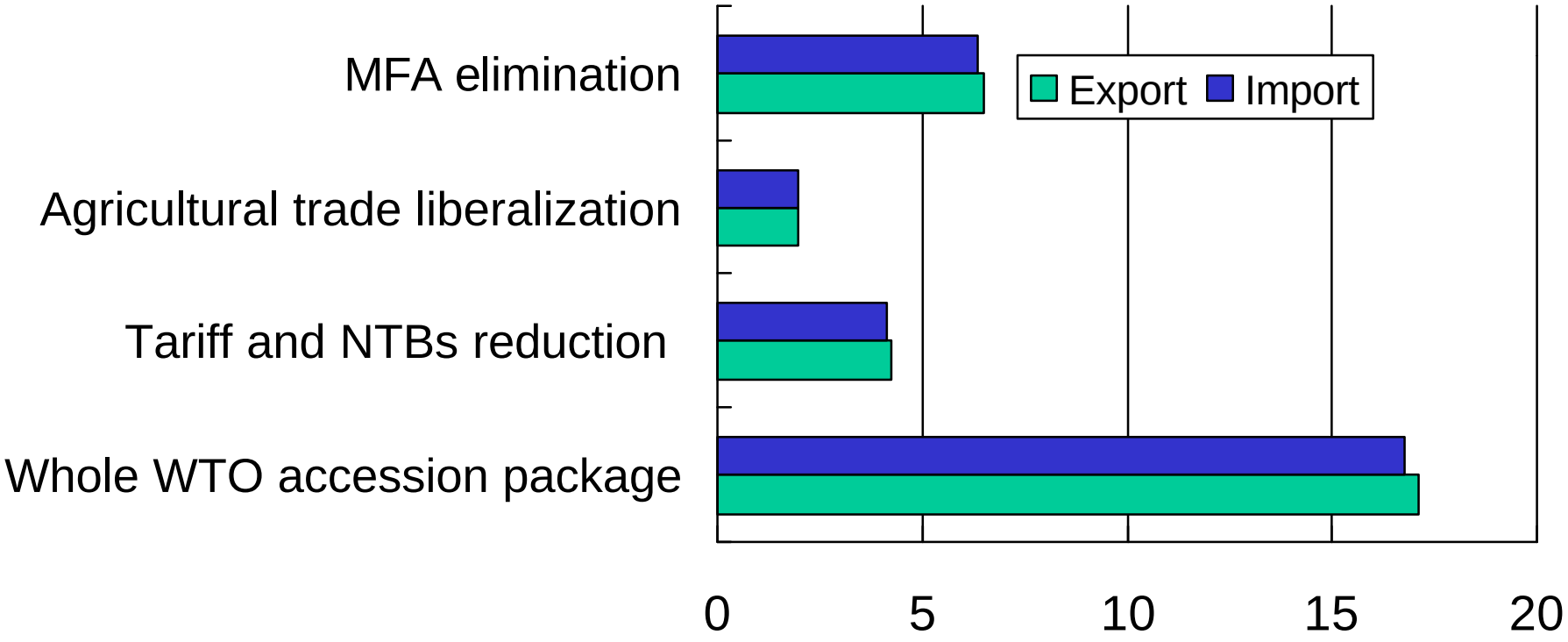
Economic efficiency gains from China's WTO accession

Percentage change of GDP relative to base case, 2005

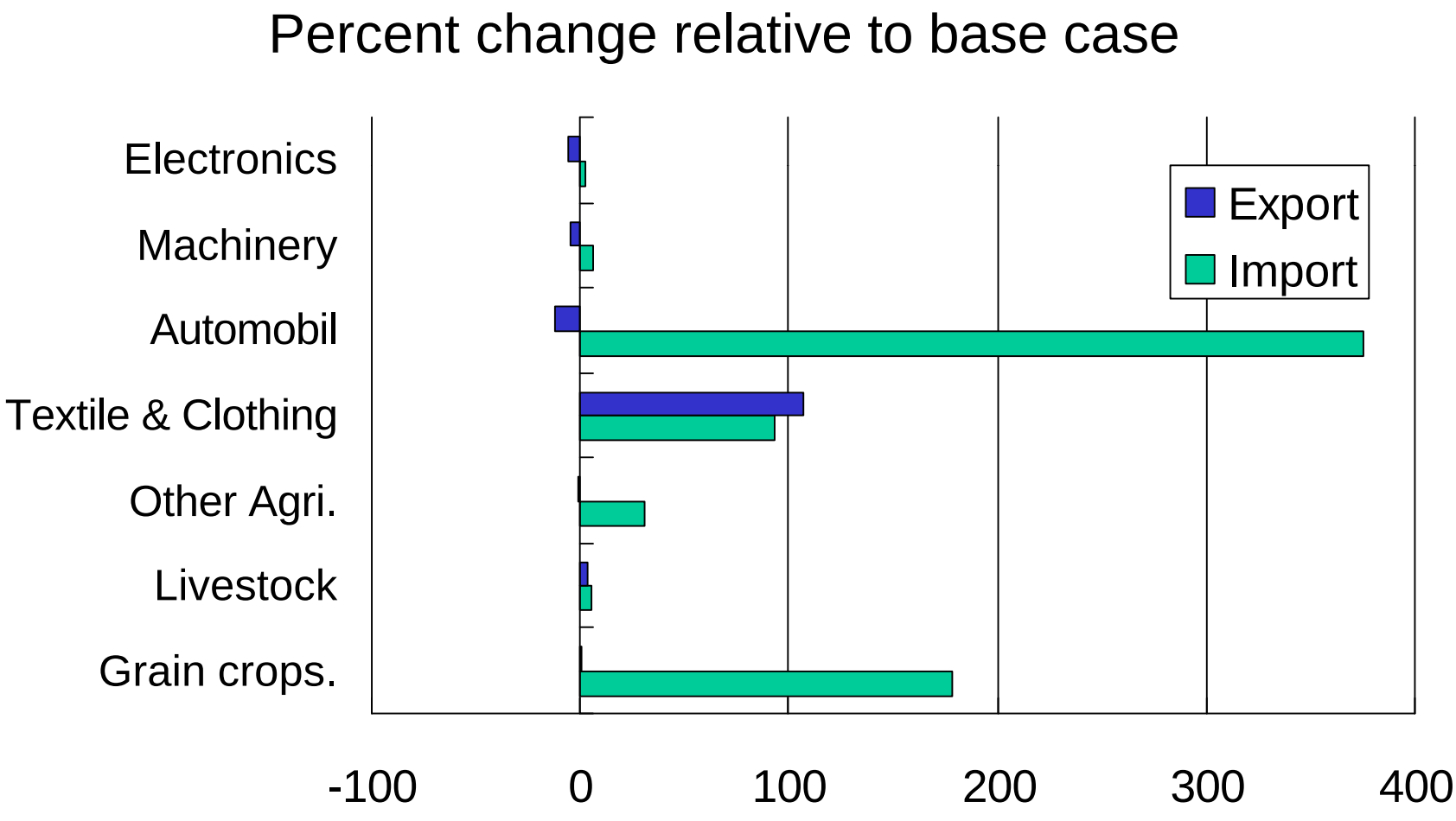


Significant expansion of China's foreign trade

Percentage change of export and import relative to base case, 2005

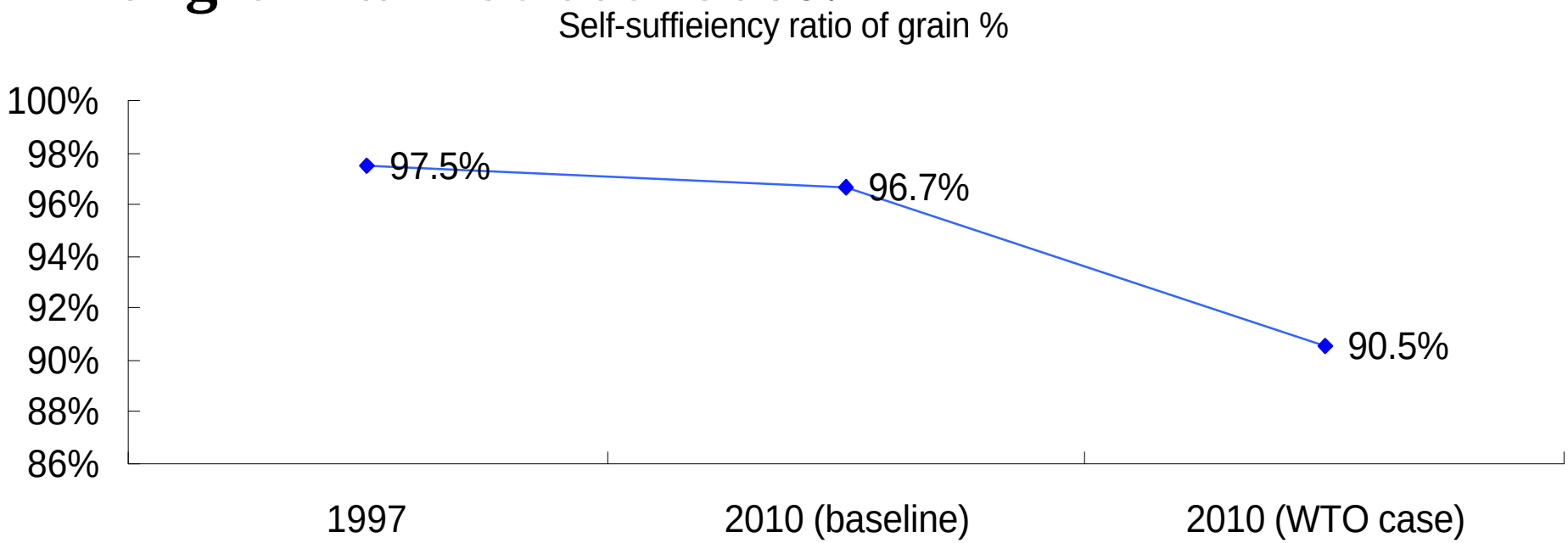


Sectoral change of import and export

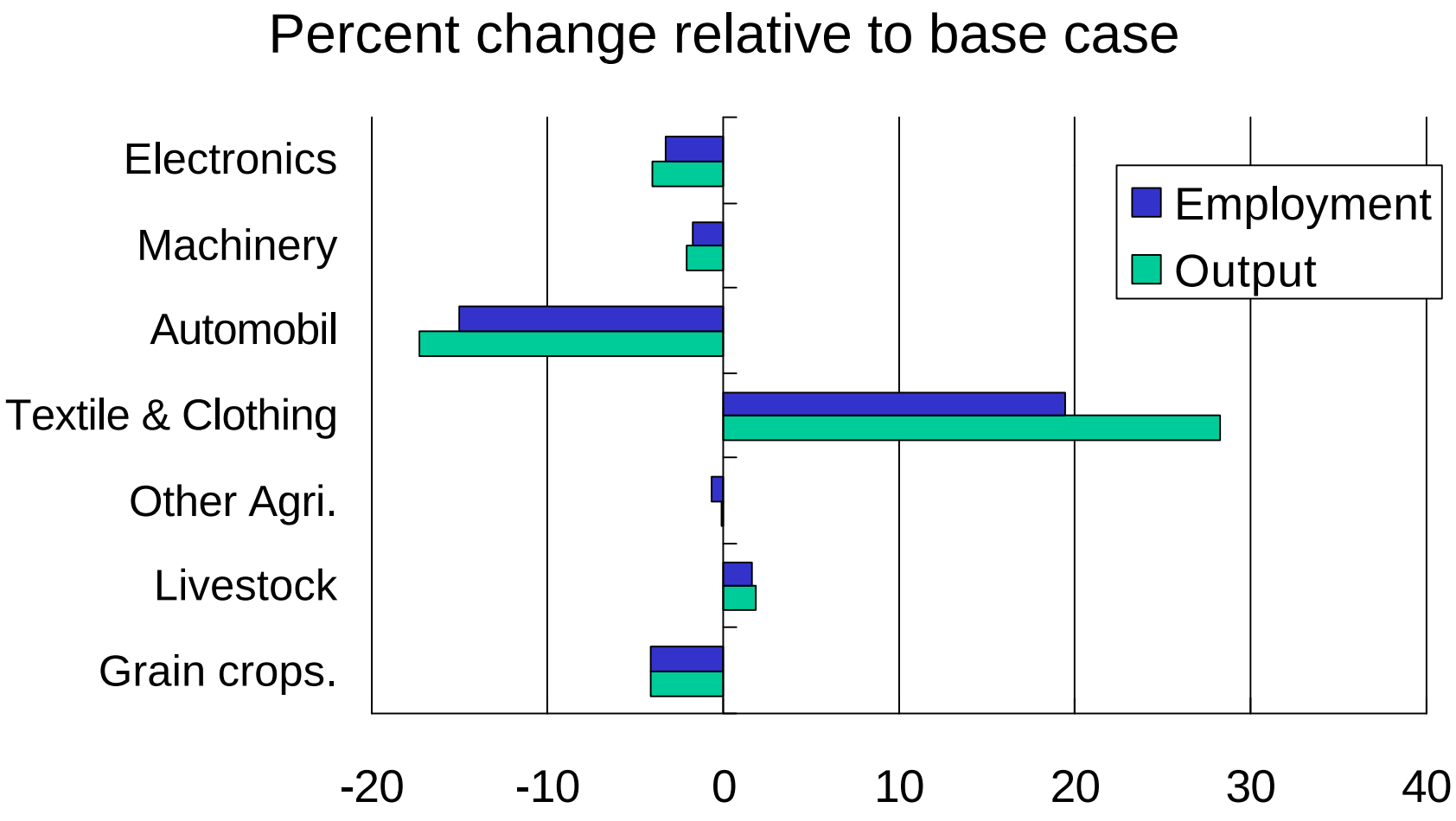


Will such dramatic agricultural import be harmful to China's food security?

Even if China would eliminate the import quota of agricultural products, the self-sufficiency ratio of grain will be over 90%.



Sectoral Adjustment



Transfer of labor force among sectors

-- *one of the most major adjustment cost*

- **Due to the high share of labor force in agricultural sector, agricultural trade liberalization would result a large amount of transfer of agricultural labor force to industrial and service sector.**
- **The elimination of MFA quota and expansion of world textile and clothing market will have important meaning to the shift of agricultural labor force.**

Income distribution:
economy-wide gains are not distributed evenly

- **Simulation results show that real income of urban households increases by 1.5%, while the real income of rural households increases 0.7% only**
- **The rural-urban disparity will enlarge during China accessing WTO**
- **Trade liberalization in agriculture may reduce rural household's income. The later the reform, the more serious the problem on income distribution.**

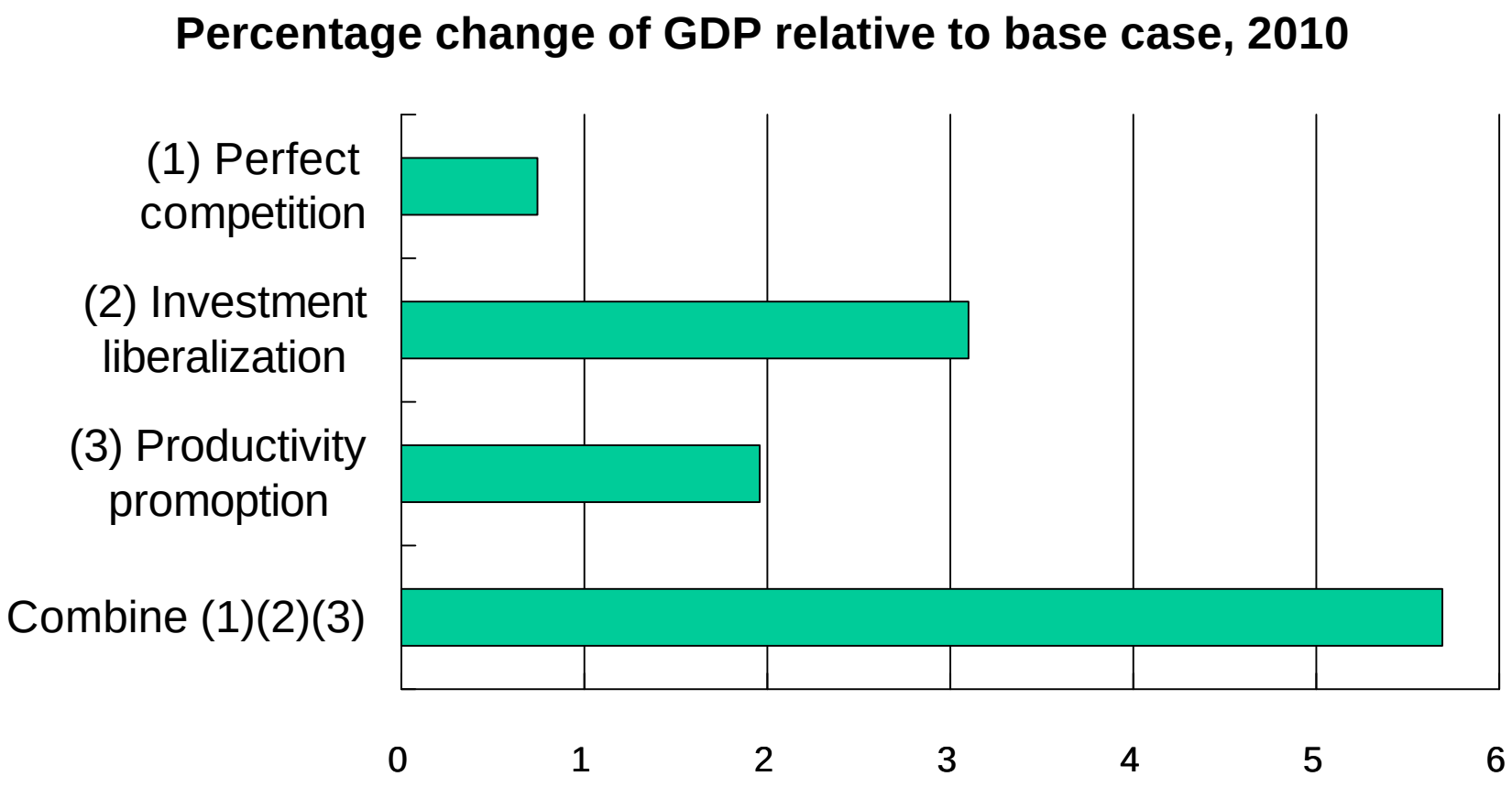
Service liberalization case

- **Service liberalization case - incorporated three aspects of policy or institutional changes.**
  - Promote the competition in service sector
  - Financial liberalization on the allocation of investment across sector
  - Productivity increment in service sector induced by Service liberalization
- **All policy changes will be phased in over the period from 2000-2010**

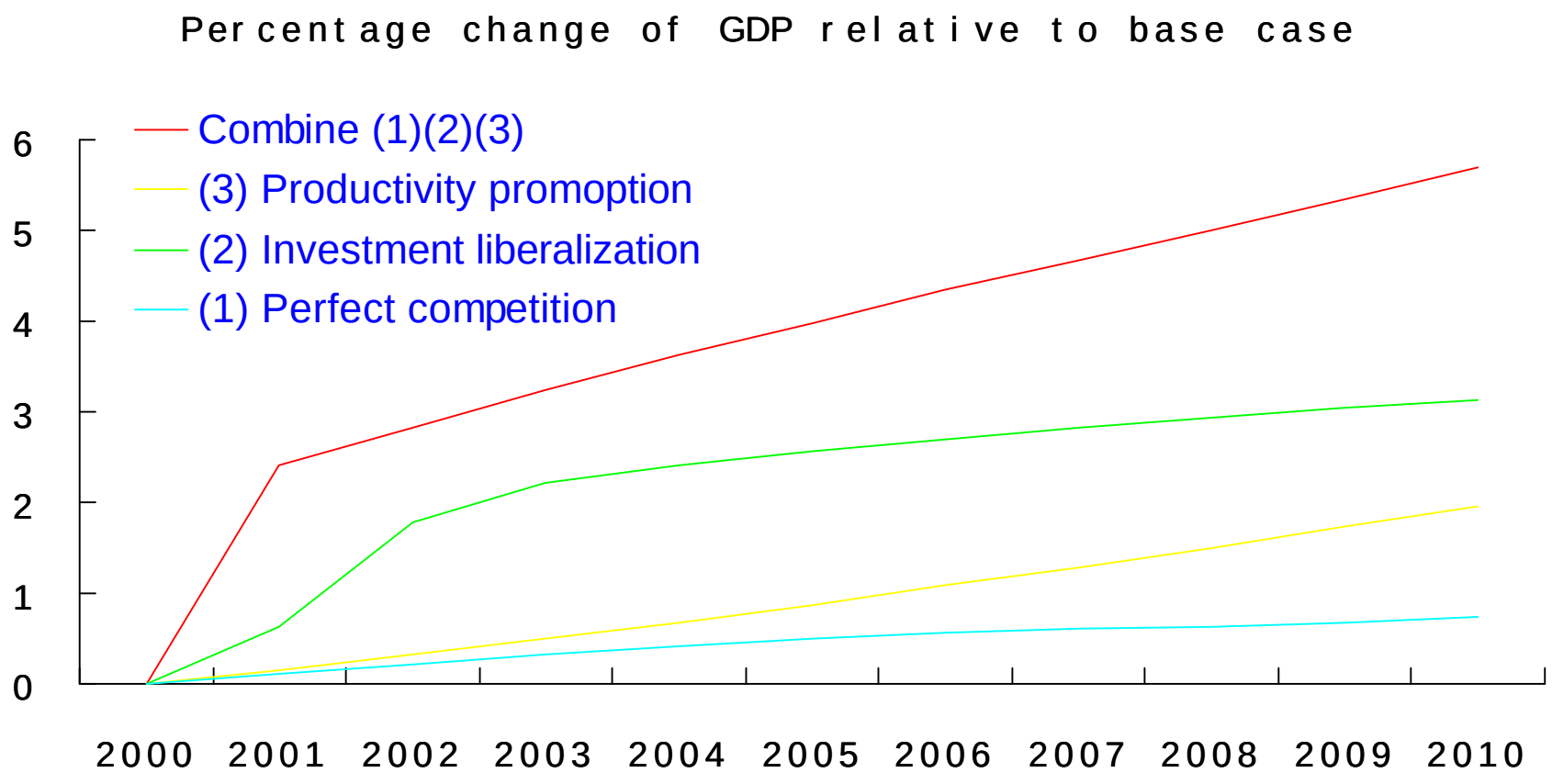
Undeveloped China's services sector

- **The relative slow growth since 1990**
- **Much below compared with other countries at same development level**
- **The rising price indicates Supply Constraints**
  - Institutional drawback and government regulation
  - Human capital

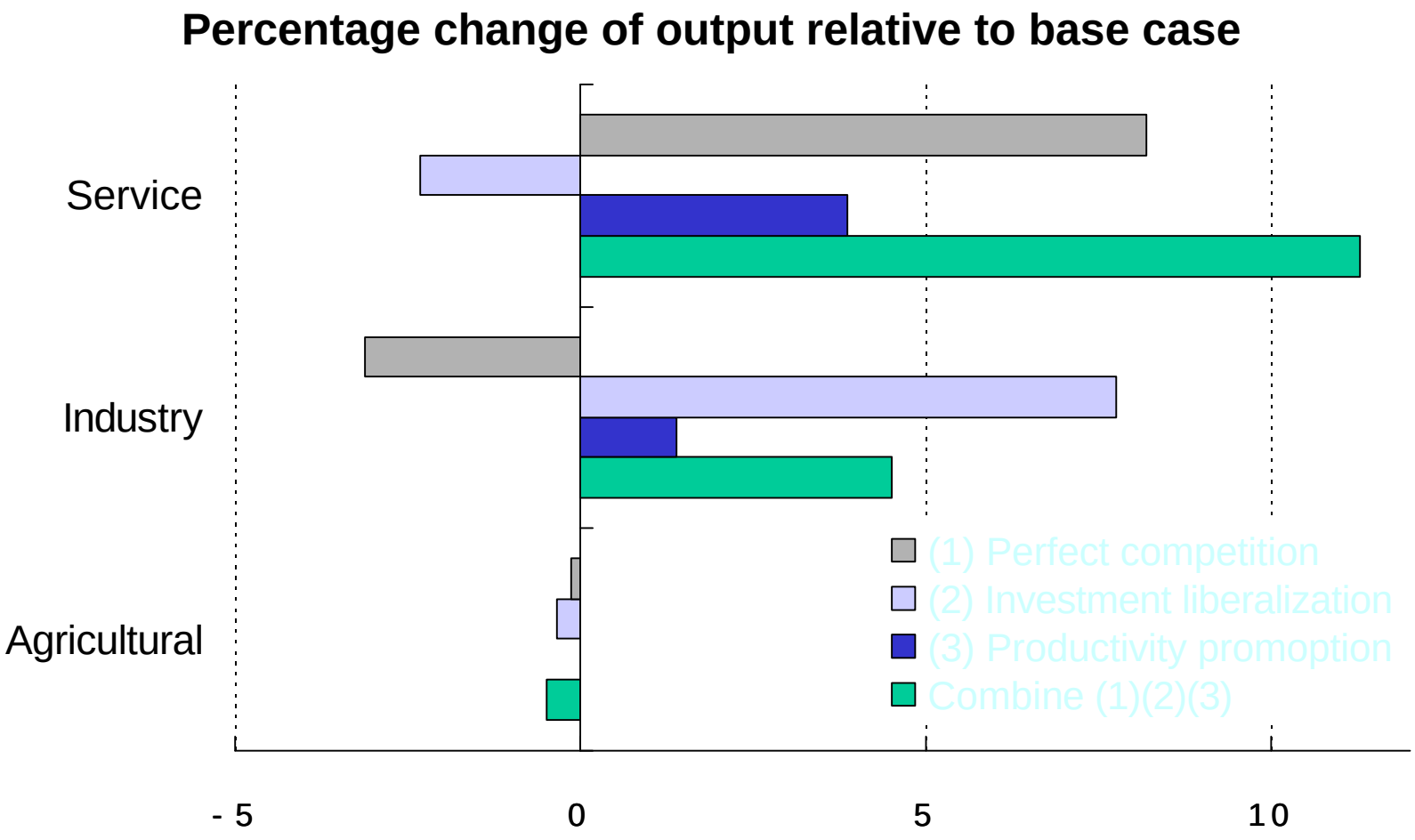
Economic efficiency gains



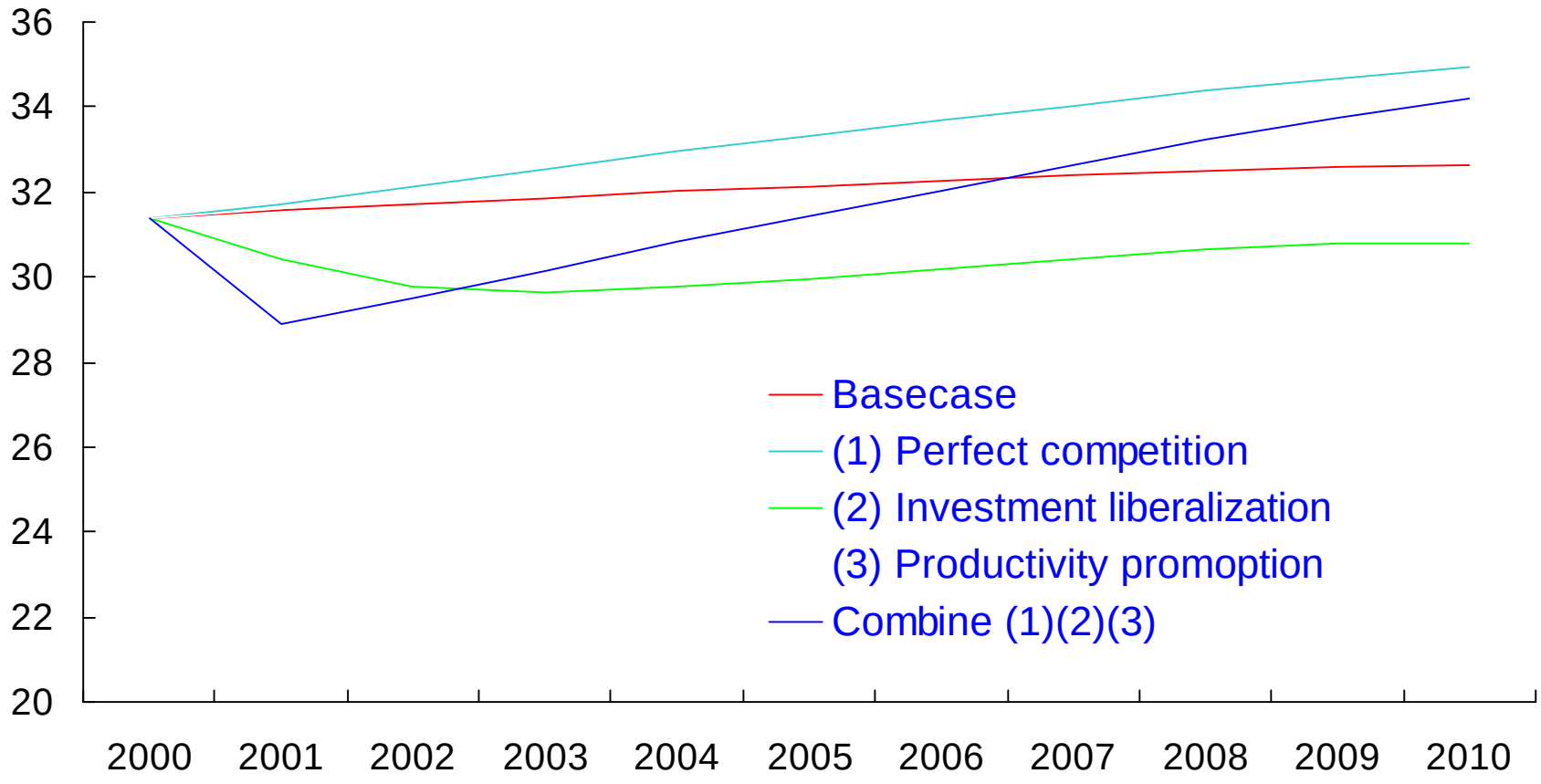
Economic efficiency gains



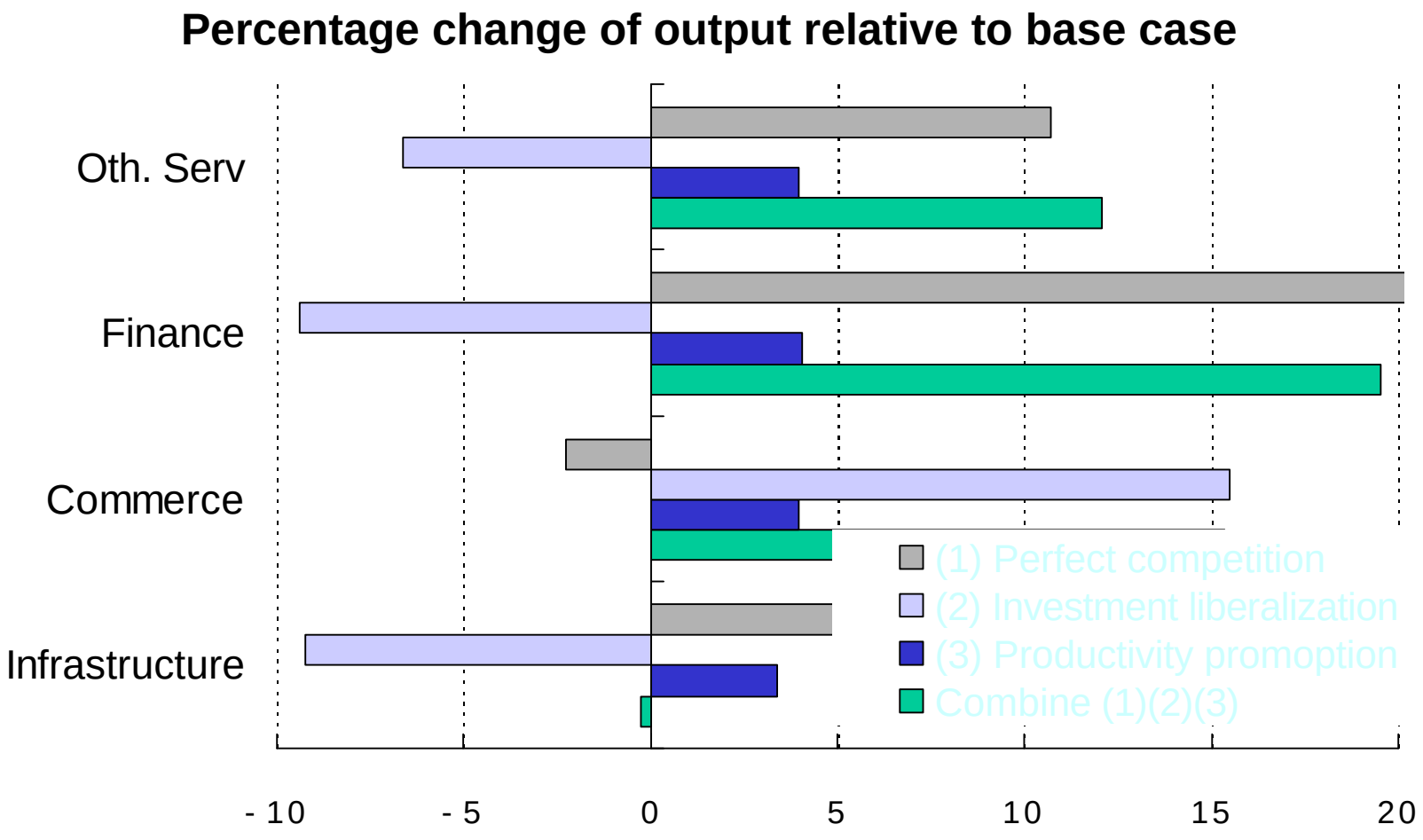
Sectoral adjustment



GDP share of service sector (%)



Change of output in service sector



Conclusions

- **Service sector liberalization could produces substantial benefits for China in terms of economic growth and consumer welfare.**
- **Compared to other service sector, financial liberalization is potentially much more important in terms of overall growth and economy-wide efficiency.**

Conclusions

- Relative to output adjustment, the employment adjustment induced by service sector liberalization is small in general..
- A comprehensive reform strategy may be more effective than that is limited to some areas or some sectors. Given the interaction of various aspects of economic sector and activities, a comprehensive reform effort may expose more sectors to the reform process and could help to reduce strains on economic and social cohesion.

Conclusions

- ***It is still possible for China to maintain its relatively fast economic growth in the next 20 years.***
- ***Numerous challenges confronting future development***
- ***The opportunities and challenges in the next 20 years will be not evenly distributed, and the period from 2000 to 2010 will be critical to the reform and development in China.***